

STRICTLY CONFIDENTIAL

EXECUTIVE SUMMARY

SUBMISSION TO : Council

DIVISION REQUESTING THE SUBMISSION : Finance

TITLE OF THE SUBMISSION

MFMA Section 16(1)&(2) – Draft annual budget 2019/20

1. SOLUTION REQUIRED

Strategy Endorsement	
Commercial Options	
Approval	
Information	X

2. PURPOSE

To table the draft annual budget for the 2019/20 Multi Term Revenue and Expenditure Framework (MTREF).

3. LEGISLATIVE BACKGROUND

In terms of section 16 (1) and (2) of the MFMA, the council of municipality must for each financial year approve an annual budget for the municipality before the start of that financial year and in order for a municipality to comply with subsection (1), the mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

4. DISCUSSION

Overview of the Budget Process

As required by section 21 (1) of the MFMA Council approved an IDP/ Budget Process Plan for the 2019/20 Financial Year in August 2018. The plan outlined schedule of key deadlines for the review of the IDP and adoption of the budget.

Various consultation processes were held with stakeholders in terms of the process plan, at public participation engagements. Furthermore, engagements were held to discuss the IDP priorities and budget formulation and implementation. Inter-alia, the municipality considered National Treasury's budget circulars, which provided guidance and assumptions.

Budget assumptions

National Treasury issued MFMA/Budget Circular 94 indicating information relevant in the compilation of the 2018/19 budget. The following CPI's were used to project expenditure for the 2019/20 financial year as well as the two subsequent years:

Item	2019/20	2020/21	1921/22
Salaries	5.8%	6.6%	5.4%
General expenditure	5.6%	5.4%	5.4%

There has been an increment of 9.8% on Bulk electricity and 7.9% increase on water and ERWAT. The said projections were used to forecast revenue from services as well as to determine tariff increases for the 2019/20 financial year.

The said circular advises municipalities to give attention to several areas of concern, among others:

- Revenue management
- Collection of outstanding debt
- Pricing services correctly
- Under-spending on repairs and maintenance
- Spending on non-priorities

Cost containment measures

In MFMA Circular No. 70 municipalities were strongly advised to take note of the Cabinet resolution of 23 October 2013 by which all national and provincial departments, constitutional institutions and all public entities are required to implement cost containment measures with effect of January 2014. **The cost containment measures must be implemented to eliminate waste, reprioritize spending and ensure savings on six focus areas namely, consultancy fees, no credit cards, travel and related costs, advertising, catering and event costs as well as costs for accommodation.** Municipalities were subsequently strongly urged to take note of the cost containment measures as approved by Cabinet and align their budgeting policies to these guidelines to the maximum extent possible.

Although it's acknowledged that local government is autonomous in its strategy formulation (IDP) and setting of budget appropriations, local government remains a sphere of government and must therefore align itself to the maximum extent possible to that of national and provincial government. In this regard in terms of section 62(1) of the MFMA the accounting officer of the municipality is responsible for managing the financial administration of the municipality, and must for this purpose take all reasonable steps to ensure:

- That the resources of the municipality are used effectively, efficiently and economically;
- That full and proper records of the financial affairs of the municipality are kept in accordance with any prescribed norms and standards;
- That the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control; and of internal audit operating in accordance with any prescribed norms and standards; and
- That unauthorized, irregular or fruitless and wasteful expenditure and other losses are prevented.

Overview of alignment of the Budget with the IDP

The strategic objectives as per the draft IDP would be addressed by the budget. A reconciliation of the IDP strategic objectives and the budget are populated in the budget supporting tables SA4 (revenue), SA5 (operational expenditure) and SA6 (capital expenditure).

Measurable Performance Objectives and Indicators

MFMA Circular 13, advises municipality to formulate the Service Delivery and Budget Implementation Plans (SDBIP), after adoption of the budget. The draft SDBIP will be informed by the approved budget and will be tabled to the Executive Mayor 14 days after approval of the budget, while the final SDBIP will be signed by the Executive Mayor within 28 days of approval of the budget, as legislated.

5. FUNDING OF THE BUDGET

In terms of section 18(1)(a)(b)(c) of the MFMA, an annual budget may only be funded from realistically anticipated revenues to be collected; cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and borrowed funds, but only for the capital budget referred to in section 17(2).

Tariff increases

It is well understandable that the municipality's ability to fund its operations is also based on its own generated revenue. MFMA circular 89 advises municipalities to apply cost-reflective tariffs. The following tariff increments are proposed to be affected in the 2019/20 financial year.

Assessment Rates	-	5.6%.
Electricity	-	13.07%
Water	-	7.9%
Sanitation	-	7.9%
Refuse	-	5.6%.
Other income	-	5.6%.

The electricity tariff application is in line with NERSA's guidelines and as a result is approved by them.

Draft budget related policies were presented a joint section 80 committee.

The following are budget related policies presented and adopted for approval by the joint Section 80 committees:

- ❖ Credit Control and Debt Collection Policy
- ❖ Indigent Management Policy
- ❖ Tariff Policy
- ❖ Property Rates Policy
- ❖ Supply Chain Management Policy
- ❖ Asset Management policy
- ❖ Budget policy
- ❖ Virement policy
- ❖ Loan policy
- ❖ Grants policy
- ❖ Funds reserves policy
- ❖ Bursary Policy
- ❖ Inventory management policy
- ❖ Cash Management and payment of creditors policy
- ❖ Supply chain management policy
- ❖ Short term insurance policy
- ❖ Subsistence and travel allowance policy
- ❖ Funding and reserves policy
- ❖ Relocation policy
- ❖ Acting allowance policy

- ❖ Provision for doubtful debtors and debt write off policy
- ❖ Bursary policy
- ❖ Investments policy
- ❖ Long term financial policy

Revenue

Proposed revenue for the 2019/20 financial year is as follows:

Description	Draft Budget 2019/20 R	Draft Budget (outer year) 2020/21 R	Draft Budget (outer year) 2021/22 R	Weighting
Property rates	116,940,708	123,255,505	129,911,305	12.2
Service charges- electricity revenue	344,986,684	364,160,467	384,400,126	36.1
Service charges – Water revenue	121,147,729	128,163,555	135,590,575	12.7
Service charges – sanitation revenue	31,365,237	33,290,704	35,337,348	3.3
Service Charges refuse revenue	31,487,855	33,251,138	35,113,163	3.3
Fines	45,919,353	45,920,398	45,921,499	4.8
Interest earned outstanding debtors	29,240,072	30,819,035	32,483,262	3.1
Transfers recognized – operational	156,669,915	173,520,304	193,686,159	16.4
Transfers recognized – Capital	64,404,000	66,820,000	73,058,000	6.7
Rental of facilities and equipment	5,219,316	5,501,160	5,798,224	0.5
Other revenue	8,163,528	8,604,352	9,068,989	0.9
Total	955,544,393	1,013,306,618	1,080,368,650	100.0

The largest revenue items are electricity at 36.1%, grant income at 23.1% (16.4% is operational grants and 6.7% is capital grants), water sales at 12.7% and property rates at 12.2%. The three items generate 84.1% of the revenue of the municipality.

Expenditure

Proposed expenditure for the financial year is as follows:

Description	Draft Budget 2018/19 R	Draft Budget (outer year) 2019/20 R	Draft Budget (outer year) 2020/21 R	Weighting
Employee costs	209,696,988	220,019,731	233,165,985	23.2
Councilors remuneration	11,795,677	12,562,396	13,228,203	1.3
Debt Impairment	150,776,271	156,960,695	163,493,107	16.7
Depreciation	38,768,608	39,845,956	41,687,517	4.3
Finance charges	7,711,200	7,607,693	7,547,828	0.9
Bulk purchases: Electricity and Water	341,353,138	359,244,573	378,073,982	37.7
Other Materials	15,442,585	16,018,784	16,883,797	1.7
Leases	3,227,704	3,402,000	3,585,709	0.3
Contracted services	80,283,586	79,637,687	84,552,025	8.9
Other expenditure	45,569,509	47,014,186	49,851,631	5.0
Total Expenditure	904,625,266	942,312,175	992,068,176	100.0

The largest expenditure items are bulk purchases at 37.7%, employee related costs at 23.2% and debt impairment at 16.7%. The three items make up 77.6% of the expenditure of the municipality.

Capital Budget

The Capital Budget amounts to R82,354,000 and is funded as follows:

Description	Draft Budget 2019/20 R	Weighting
National Government funded	64,954,000	79%
<i>Lesedi L.M. (own funded)</i>	17,400,000	21%
TOTAL	82,354,000	100%

DETAIL Draft CAPEX BUDGET FOR 2019/20						
GRANT FUNDED PROJECTS						
New Vote	Source of funding	Description	Budget 19/20	Budget 20/21	Budget 21/22	
37156433020CFC63ZZWM	EEMD	STREET LIGHTS (EDDSM)	7 000 000.00	6 000 000.00	7 000 000.00	
37156432420IPC61ZZW4	INEP	ELECTRIFICATION- OBED NKOSI	900 000.00	-	-	
37156433020IPC65ZZW4	INEP	ELECTRIFICATION- OBED NKOSI	727 600.00	-	-	
37156437020IPD1ZZW7	INEP	ELECTRIFICATION- IMPUMELELO - MV	5 000 000.00	6 525 637.00	6 884 547.00	
37156437420IPD11ZZW7	INEP	ELECTRIFICATION- IMPUMELELO - LV	6 372 400.00	6 274 363.00	6 619 453.00	
31106460420CLC95ZZWM	Libraries	FURNITURE	150 000.00	-	-	
31106470020CLC84ZZWM	Libraries	COMPUTER HARDWARE	480 000.00	-	-	
31106473520CLD03ZZW2	Libraries	MAINTENANCE DEVON	-	500 000.00	500 000.00	
31106473520CLD08ZZWM	Libraries	NEW BOOKS	1 000 000.00	-	-	
31106473520CLD38ZZW4	Libraries	FENCING OF RATANDA PROPER	3 000 000.00	-	-	
31106473520CLD39ZZW4	Libraries	CAR PORT IN RATANDA	120 000.00	-	-	
37156437420IPD13ZZW4	MIG	INSTALLATION OF HIGHMASTS AT LESEDI	1 904 000.00	-	-	
37306472420FM0D1ZZW4	MIG	CONST ROADS & S/W OBED NKOSI	11 500 000.00	27 695 000.00	29 554 000.00	
37306472420FM0D15ZZW8	MIG	CONSTR ROADS & STORMWATER JAMESON PARK	7 800 000.00	-	-	
37306472420FM0D16ZZW4	MIG	CONSTR ROADS & STORMWATER RATANDA EXT7	4 000 000.00	-	-	
37356449420WDG18ZZWM	WSIG	UPGR SEWER PIPELINE THOKOLOHONG AGRI VIL	7 000 000.00	-	-	
37456446020WDG17ZZWM	WSIG	REPLACEMENT OF ASBESTOS PIPES LESEDI P4	8 000 000.00	10 000 000.00	10 600 000.00	
37356449420WDG20ZZW4	WSIG	UPGR OUTFALL SERWER PIPELIN RATANDA EXT2	-	-	5 000 000.00	
Total Grant funded Projects			64 954 000.00	56 995 000.00	66 158 000.00	

INTERNAL FUNDED PROJECTS						
New Vote	Source of funding	Description	Budget 19/20	Budget 20/21	Budget 21/22	
31156472420CFD30ZZWM	Internal Funding	INTERNAL ROADS EKHUTULENI CEMETERY	1 500 000.00	1 000 000.00	-	
31156473520CFD21ZZWM	Internal Funding	EXT;FENCE;PECK NEW GRAVES KAMP CEMETERY	-	2 000 000.00	2 000 000.00	
31206456420CFD27ZZWM	Internal Funding	FIRE ENGINE	4 500 000.00	-	-	
31556456020CFC83ZZWM	Internal Funding	BUSH CUTTERS; CHAINSAWS; BLOWERS	350 000.00	280 000.00	300 000.00	
31556456420CFD28ZZWM	Internal Funding	MECHANICAL RAKE	-	120 000.00	120 000.00	
31656473520CFC68ZZWM	Internal Funding	GRASSING OF THE RATANDA STADIUM	-	-	150 000.00	
32156421020CFD40ZZWM	Internal Funding	OFFICIAL VEHICLES	1 200 000.00	-	-	
35106460420CFC95ZZWM	Internal Funding	FURNITURE	350 000.00	-	-	
35206470020CFC84ZZWM	Internal Funding	COMPUTER HARDWARE	1 000 000.00	500 000.00	500 000.00	
35306456420CFD25ZZWM	Internal Funding	VACUUM CLEANERS x12	-	98 000.00	-	
35306460420CFD26ZZWM	Internal Funding	STEEL FRAME CHAIRS WITH CUSHION x1200	-	-	334 000.00	
35306474020F7C85ZZWM	Internal Funding	UPGRADE OF MUNICIPAL BUILDING	300 000.00	-	-	
37156431420CFD23ZZWM	Internal Funding	UPGRADING & REFURBISHMENT SECONDARY SUB	-	1 500 000.00	4 500 000.00	
37156433020CFD22ZZWM	Internal Funding	UPGRADING & REFURBISHMENT OF NETWORK	500 000.00	1 500 000.00	2 000 000.00	
37356433020F3C66ZZW4	Internal Funding	ELECTRIFICATION- RATANDA EXT 8	500 000.00	-	-	
37156456420CFD24ZZWM	Internal Funding	TOOLS & EQUIPMENT	150 000.00	-	-	
37306456020CFC81ZZWM	Internal Funding	TAR CUTTER AND COMPACTOR	-	170 000.00	190 000.00	
37306472420CFC87ZZWM	Internal Funding	RESEALING OF ROADS	5 000 000.00	6 000 000.00	7 000 000.00	
37306512420CFD35ZZWM	Internal Funding	GRADER	-	-	2 500 000.00	
37356420420CFC91ZZWM	Internal Funding	TRAILERS	350 000.00	-	-	
37356449420FMD14ZZW2	Internal Funding	UPGRADING OF DEVON WASTE WATER TREATMENT	1 200 000.00	-	-	
37356449420WDG19ZZW4	Internal Funding	UPGR SEWER CHANNELS IN RATANDA PROPER	-	5 000 000.00	-	
37406512420CFD31ZZW4	Internal Funding	REFUSE COLLECTION TRUCK	-	3 000 000.00	-	
37406512420CFD32ZZW4	Internal Funding	TLB	-	-	1 200 000.00	
37406512420CFD33ZZW1	Internal Funding	LDV	-	300 000.00	-	
37406512420CFD34ZZW5	Internal Funding	TIPPER TRUCKS	-	-	500 000.00	
37456446420CFC86ZZW5	Internal Funding	BACKUP SUPPLY EMMASDALE (PUMPSTATION)	-	1 500 000.00	-	
37456456420CFD37ZZW4	Internal Funding	UPGRADING TELEMETRY SYSTEM	500 000.00	-	-	
37456512420CFD36ZZW5	Internal Funding	TRUCK	-	-	370 000.00	
31556512420CFD29ZZWM	Internal Funding	TRACTOR (GRASS CUTTING) X 2	-	-	500 000.00	
Total Internal funded Projects			17 400 000.00	22 968 000.00	22 164 000.00	
TOTAL CAPITAL			82 354 000.00	79 963 000.00	88 322 000.00	

5. LEGISLATIVE PROVISION

Section 16 (1) and (2) of the MFMA.

6. LC.CM-.../03/2018 RECOMMENDATION

6.1 THAT Council notes the draft annual budget with operational revenue of R955,544,393 operational expenditure of R904,625,266 and Capital Expenditure of R82,354,000 for the 2019/20 financial year as contained in the following tables: